KPMG

BRANDEIS UNIVERSITY

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Trustees
Brandeis University:

We have audited the accompanying statements of financial position of Brandeis University (the University) as of June 30, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 10, 2006

BRANDEIS UNIVERSITY

Statements of Financial Position

June 30, 2006 and 2005

(Dollars in thousands)

Assets		**2006**	**2005**
Cash and cash equivalents	$	47,690	38,287
Accounts receivable, net (note 2)		10,882	12,767
Notes receivable, net (note 3)		12,998	12,989
Other assets		7,198	6,736
Contributions receivable, net (note 4)		92,635	67,955
Funds held under bond agreement		6,340	14,633
Investments, at fair value (note 5)		616,258	561,384
Funds held in trust by others		10,091	9,800
Property, plant and equipment, net (notes 6, 7 and 12)		192,692	177,180
Total assets	$	996,784	901,731
Liabilities and Net Assets			
Accounts payable and other accrued liabilities (notes 5 and 12)	$	40,922	29,534
Sponsored program advances and deferred income		12,995	11,367
Accrued interest payable – capital appreciation bonds (note 7)		14,869	16,252
Long-term debt, net (note 7)		134,234	135,329
Refundable advances for student loans (note 3)		6,345	6,368
Total liabilities		209,365	198,850
Net assets (notes 8 and 12):			
Unrestricted		140,985	136,328
Temporarily restricted		223,957	184,213
Permanently restricted		422,477	382,340
Total net assets		787,419	702,881
Total liabilities and net assets	$	996,784	901,731

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statements of Activities

Years ended June 30, 2006 and 2005

(Dollars in thousands)

	2006	2005
Changes in unrestricted net assets:		
Revenues and gains:		
Tuition and fees	$ 136,791	129,404
Residence hall and dining income	23,274	22,593
Total tuition, fees, residence hall and dining	160,065	151,997
Less university funded financial aid	(51,790)	(47,648)
Net tuition, fees, residence hall and dining	108,275	104,349
Contributions	11,045	8,683
Sponsored programs, grants and contracts	54,677	53,367
Investment earnings (note 5)	4,484	3,449
Investment income from funds held in trust by others	312	298
Net realized and unrealized investment gains (note 5)	2,231	13,706
Other sources	7,207	6,907
Total revenues and gains	188,231	190,759
Net assets released from restrictions	56,714	65,859
Total unrestricted revenues, gains and other support	244,945	256,618
Expenses and losses:		
Instructional and sponsored programs	136,879	126,303
Libraries	13,178	12,159
Student services	22,022	20,415
General and administrative	19,073	18,634
University development	12,230	11,284
Auxiliary enterprises	29,064	27,139
Other reductions	1,480	1,279
Total expenses and losses	233,926	217,213
Cumulative effect of accounting change (note 12)	6,362	—
Increase in unrestricted net assets	4,657	39,405
Changes in temporarily restricted net assets:		
Contributions	40,770	38,548
Investment earnings (note 5)	55,890	35,317
Change in value of split interest agreements	606	(401)
Net assets released from restrictions	(57,522)	(66,464)
Increase in temporarily restricted net assets	39,744	7,000
Changes in permanently restricted net assets:		
Contributions	39,238	26,572
Investment earnings (note 5)	528	1,510
Change in value of funds held in trust by others	294	294
Change in value of split interest agreements	(516)	(491)
Donors' clarification of intent	593	456
Increase in permanently restricted net assets	40,137	28,341
Change in net assets	84,538	74,746
Net assets at beginning of year	702,881	628,135
Net assets at end of year	$ 787,419	702,881

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(Dollars in thousands)

		2006	2005
Cash flows from operating activities:			
Change in net assets	$	84,538	74,746
Adjustments to reconcile change in net cash provided by operating activities:			
Cumulative effect of change in accounting principle		6,362	—
Depreciation and amortization		14,397	13,846
Net realized and unrealized investment gains		(47,159)	(40,026)
Net change from funds held in trust by others		(291)	(292)
Loss on the disposal and impairment of property, plant and equipment		3	7
Contributions restricted for long-term investment		(37,671)	(27,186)
Change in other assets		(23,257)	(20,609)
Change in other liabilities		5,248	2,301
Net cash provided by operating activities		2,170	2,787
Cash flows from investing activities:			
Acquisitions of buildings and equipment		(29,795)	(21,609)
Purchase of investments		(173,662)	(167,574)
Proceeds from sale and maturities of investments		165,947	150,168
Change in notes receivable, net		(9)	(113)
Net cash used in investing activities		(37,519)	(39,128)
Cash flows from financing activities:			
Repayments of bonds, notes and leases		(3,590)	(3,672)
Proceeds from issuance of bonds, notes and leases		2,378	991
Change in funds held under bond agreement		8,293	7,721
Contributions restricted for long-term investment		37,671	27,186
Net cash provided by financing activities		44,752	32,226
Change in cash and cash equivalents		9,403	(4,115)
Cash and cash equivalents, beginning of year		38,287	42,402
Cash and cash equivalents, end of year	$	47,690	38,287
Supplemental data:			
Interest paid	$	9,056	8,982

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Brandeis University (the University) is a private, coeducational institution of higher learning and research. Founded in 1948 and located in Waltham, Massachusetts, the University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

(a) Basis of Accounting

The University's financial statements are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Depreciation, interest, and operation of plant expenses are allocated to functional expense categories on the basis of square feet utilized.

The classification of net assets, revenues, expenses, gains, and losses into three categories is based on the existence or absence of donor-imposed restrictions. The three categories are defined as follows:

Unrestricted – Net assets not subject to donor-imposed restrictions.

Temporarily restricted – Net assets with use limited by law or by donor-imposed restrictions as to purpose or time. Life income trusts and pledges receivable for which the ultimate use is not permanently restricted are reported as temporarily restricted.

Permanently restricted – Net assets subject to donor-imposed restrictions that require the assets to be invested in perpetuity.

(b) Revenue Recognition

Revenues are reported as an increase in unrestricted net assets, unless the use of the related assets is limited by donor-imposed restrictions or by law. Donor restricted gifts that are received and spent within the same fiscal year are reported as temporarily restricted revenue. Expenses are reported as a decrease in unrestricted net assets. Expiration of temporary restrictions is reflected in the accompanying statements of activities as net assets released from restrictions. Net realized gains (losses) from the sale or other disposition of investments and the change in unrealized appreciation (depreciation) of investments are reported as revenue in unrestricted net assets, unless use of these gains is restricted by donor-imposed stipulations or by law. Realized gains (losses) are computed using the average cost basis of securities sold.

Revenues associated with research and other grants and contracts are recognized when the related expenses are incurred. Indirect cost recovery by the University on federal grants and contracts is based upon a predetermined negotiated rate and is recorded as unrestricted revenue.

Student deposits, along with advance payments for tuition, room, and board for fall and certain summer sessions are deferred and will be recorded as revenues in the year in which the sessions are completed.

(c) Contributions and Pledges

Contributions are nonreciprocal unconditional transfers of assets or cancellations of liabilities. Contributions received without donor-imposed restrictions are recorded as unrestricted revenue. Contributions received with donor-imposed restrictions are reported as revenue in the temporarily restricted or permanently restricted net asset category according to donors' restrictions. Contributions of noncash assets are recorded at fair value on the date of the contribution.

Unconditional promises to give are recognized as temporarily or permanently restricted revenues in the year the contributions are received. Contributions are recorded as assets at the present value of the expected cash flow using discount rates of 2.3% to 6.0%, net of an allowance for unfulfilled contributions based upon collection experience and other relevant factors. Conditional contributions are not recognized until the stated conditions are met.

(d) Cash and Cash Equivalents

The University records all liquid investments purchased with an original maturity of three months or less as cash equivalents.

(e) Investments and Funds Held Under Bond Agreements

Investments and funds held under bond agreements are stated at fair value as determined by the investment custodians using market quotations or estimates from professional appraisers.

(f) Funds Held in Trust by Others

Funds held in trust by others are held in perpetuity by external trustees, as specified by the donor, and are recorded by the University at fair value. Trust income is distributed at least annually to the University in accordance with the terms of the trusts and is recorded as investment income. Changes in market values of the trusts are recorded as permanently restricted gains or losses.

(g) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or, if contributed, the fair value on the date of contribution, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of land improvements (18 years), buildings (35-60 years), building systems and improvements (18-25 years) and equipment and furnishings (3-15 years). Equipment purchased with grant funds is expensed; disposition of grant-funded equipment follows the applicable agency or foundation guidelines.

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with Statement of Financial Accounting Standards (SFAS) No. 143 and Interpretation No. 47 (FIN 47) *Accounting for Conditional Asset Retirement Obligations,* if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the University capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of operations.

(In thousands)

(h) Sponsored Programs, Grants, and Contracts

Sponsored activities include various research and instructional programs funded by external parties including the federal government, foreign and state governments and private foundations and corporations. Revenues associated with sponsored programs, grants, and contracts are recognized when related costs are incurred. Under the terms of federal grants, periodic audits are required and costs may be questioned and subject to reimbursement. Management believes that the outcome of such audits will not have a material effect on the financial position of the University.

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Other Assets

Other assets include unamortized debt issuance costs, other prepayments, and inventories.

(2) Accounts Receivable

The composition of accounts receivable as of June 30 is as follows:

		2006	2005
Student receivables	$	1,583	1,870
Sponsored programs grants receivable		5,834	9,287
Investment income receivable		1,128	1,005
Interest rate swap receivable		1,309	—
Other		1,539	1,093
		11,393	13,255
Less allowance for doubtful accounts		(511)	(488)
Accounts receivable, net	$	10,882	12,767

(In thousands)

(3) Notes Receivable

The composition of the notes receivable as of June 30 is as follows:

		2006	2005
Federal Perkins Loan Program	$	6,851	6,852
University loan programs		7,553	7,361
		14,404	14,213
Less allowance for doubtful loans		(1,406)	(1,224)
Notes receivable, net	$	12,998	12,989

Notes receivable include funds advanced to the University by the U.S. government under the Federal Perkins Loan Program (the Program). Notes receivable under the Program are subject to significant restrictions. Such funds are reloaned by the University after collection, but in the event that the University no longer participates in the Program, the amounts are generally refundable to the U.S. government. Accordingly, it is not practicable to determine the fair value of such amounts.

(4) Contributions Receivable

The composition of contributions receivable as of June 30 is as follows:

		2006	2005
Amounts due in:			
One year or less	$	37,830	28,119
Between one and five years		43,094	37,389
More than five years		25,882	11,312
Gross contributions receivable		106,806	76,820
Less:			
Discount		(10,464)	(4,661)
Allowance for unfulfilled contributions		(3,707)	(4,204)
Contributions receivable, net	$	92,635	67,955

Contributions receivable have been discounted to net present value at rates ranging from 2.3% to 6.0%.

(In thousands)

(5) Investments

The University's investments comprised the following as of June 30:

		2006	2005
Cash and cash equivalents	$	22,977	45,514
Fixed income		95,748	94,551
Equities		218,597	233,235
Real estate		7,705	10,110
Alternative investments		271,231	177,974
Investments, at fair value	$	616,258	561,384

The majority of permanently restricted net assets is true endowment and is pooled for investment purposes. Income earned is allocated to the appropriate net asset category, based upon the unit share method.

Investments include gift annuities and charitable remainder trusts. These funds are held in trust for one or more beneficiaries, and generally pay lifetime income to those beneficiaries, after which the principal is made available to the University in accordance with donor intentions. The assets are recorded at fair value and liabilities are recorded to recognize the present value of estimated future payments due to beneficiaries. The liabilities of $12,384 in 2006 and $13,403 in 2005 are included in accounts payable and other liabilities in the statements of financial position.

Investments are stated at fair value. The estimated fair value of investments is based on quoted market prices, except for certain alternative investments, principally privately held equity and hedge funds, limited partnerships, real estate and similar interests, for which quoted market prices are not readily available. The estimated fair value of alternative investments is based on management's evaluation of the underlying investments. Since such investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Approximately 44% and 32% of total investments, as of June 30, 2006 and 2005, respectively, are invested in such alternative investments. Management is responsible for the fair value measurements reported in the financial statements. The University has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that the reported fair values as of the statements of financial position dates are reasonable. The net increase (decrease) in realized and unrealized appreciation (depreciation) in the fair value of such investments has been included in the statements of activities in the appropriate net asset classification.

The University has agreed to make additional capital contributions of up to $26,849 in a private equity fund and up to $5,000 in a private timber fund. The timing and amounts of the contributions will be determined by the general partners.

(Continued)

(In thousands)

The following summarizes the investment return for all investments for the years ended June 30:

	2006	2005
Investment income	$ 15,974	13,956
Net realized gain	29,312	9,703
	45,286	23,659
Less management fees	(1,982)	(1,628)
	43,304	22,031
Net increase in unrealized appreciation	17,847	30,323
Investment earnings	$ 61,151	52,354

The Board of Trustees approved a spending policy, which authorizes the use of a prudent amount of capital appreciation in accordance with provisions of the Massachusetts Uniform Management of Institutional Funds Act. Accumulated capital gains spent in 2006 and 2005 amount to $22,744 and $17,220, respectively. The funds are utilized principally for financial aid and support of faculty chairs. Future utilization of gains is dependent on market performance. Deficiencies in donor-restricted endowment funds, resulting from declines in market value, have been offset by transfers from unrestricted net assets to temporarily restricted net assets. There were no deficiencies at June 30, 2006 and 2005. The allocation of deficiencies is recorded in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. In the opinion of counsel, the University is under no obligation to fund this allocation.

The University has relied upon the Massachusetts Attorney General’s interpretation of relevant state law as generally permitting the spending of gains on permanently restricted net assets over a stipulated period of time. State law allows the Board of Trustees to appropriate all of the income and a specified percentage of the net appreciation as is prudent considering the University’s long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the University’s spending policy, which is deemed to be within the guidelines specified under state law, a percentage of permanently restricted long-term investments is appropriated annually as determined by the University’s Board of Trustees.

(In thousands)

(6) Property, Plant and Equipment

The composition of property, plant and equipment as of June 30 is as follows:

		2006	2005
Land and land improvements	$	19,596	15,958
Buildings		84,105	82,827
Building systems and improvements		210,566	197,925
Equipment and furnishings		58,068	63,767
		372,335	360,477
Less accumulated depreciation		(194,068)	(186,537)
Construction in progress		14,425	3,240
Property, plant and equipment, net	$	192,692	177,180

Depreciation expense amounted to $14,280 in 2006 and $13,729 in 2005. Operation and maintenance expenses amounted to $30,864 in 2006 and $25,446 in 2005.

Expenses for the repairs and maintenance of facilities are recorded during the period incurred; betterments, which add to the value of the related assets or materially extend the lives of the assets, are capitalized. At the time of disposition, the cost and associated accumulated depreciation are removed from the related accounts and gains or losses are reported as unrestricted revenue or expense.

The University has commitments to expend approximately $5,200 to complete various construction projects as of June 30, 2006.

(Continued)

(In thousands)

(7) Indebtedness

Outstanding debt as of June 30 consists of the following:

		2006	2005
Commonwealth of Massachusetts Health and Educational Facilities Authority (MHEFA) Brandeis University Issue Series J Revenue Bonds at an interest rate of 5%, maturing October 1, 2024 through October 1, 2026	$	19,120	19,120
Commonwealth of Massachusetts Health and Educational Facilities Authority (MHEFA) Brandeis University Issue Series I Revenue Bonds at effective interest rates from 4.67% to 5.125%, maturing October 1, 2012 through October 1, 2028		82,380	82,380
Commonwealth of Massachusetts Industrial Finance Agency (MIFA) Revenue Bonds, Brandeis University Issue 1989 Series C, at interest rates from 6.40% to 6.85%, maturing in annual installments from October 1, 2003 through October 1, 2011		6,958	8,426
Commonwealth of Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Brandeis University Issue 2004 Series K, at interest rates from 2.0% to 4.94%, maturing in annual installments from October 2004 through October 1, 2033		24,430	24,910
Capital lease with a financial services corporation as lessor, Massachusetts Health and Education Facilities Authority (MHEFA) as lessee, and Brandeis University as sub-lessee, with semiannual payments at an interest rate of 5.065% through October 1, 2005		—	252
Various capital lease agreements with a financial services corporation with lease payments at interest rates from 2.57% to 10.25% through January 2010		2,902	1,563
Various mortgage notes payable at interest rates from 0% to 8.50%, maturing in various years through November 1, 2011 (see note 1)		921	1,273
Long-term debt before discount		136,711	137,924
Less unamortized discount		(2,477)	(2,595)
Long-term debt, net	$	134,234	135,329

In January 2004, the University issued Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Brandeis University Issue, Series K, in the amount of $25,385. The proceeds of the Series K Bonds are being used to finance a major infrastructure renewal project on the University's campus over the next six months.

(Continued)

(In thousands)

During fiscal years 2006 and 2005 the University obtained lease financing through financial services corporations in the amount of $2,378 and $991, respectively, for the installation of network wiring and acquisition of computer equipment.

Dining facilities renovations have been financed by loans from a University vendor. The outstanding balance of $614 at June 30, 2006 is included in notes payable and will be repaid in installments through January 2009.

MIFA 1989 Series C capital appreciation bonds require interest to be paid when the principal on the bonds is due. The capital appreciation bonds mature in 2003 through 2011. The University accrues for the capital appreciation interest currently. The balance at June 30, 2006 and 2005 was $14,869 and $16,252, respectively.

The University has a $25,000 line of credit, with a variable rate of interest at prime or a fixed rate at LIBOR plus 1% that is redetermined on a 30 to 90 day basis. There was no amount outstanding as of June 30, 2006 and 2005.

The fair market value of the external debt is estimated to be approximately $4,000 more than the aggregate carrying value at June 30, 2006. The University's payments for debt and lease obligations are as follows:

		Debt	Leases
Year ending June 30:			
2007	$	2,207	1,022
2008		2,085	944
2009		1,877	645
2010		1,699	291
2011		1,619	—
Thereafter		124,322	—
	$	133,809	2,902

Interest expense for the years ended June 30, 2006 and 2005 was $7,666 and $7,873, respectively. Interest costs incurred in association with the Series K bond and capitalized during 2006 and 2005 were $31 and $21, respectively, and will be amortized over the useful lives of the related assets. The bond agreements contain covenants, which among other restrictions include the maintenance of a specific amount of cash and investments not subject to legal restrictions. The University was compliant with these covenants as of June 30, 2006.

The University is party to two interest rate swap transactions designed to manage the University's interest costs and risks associated with variable rate debt. In January of 2006, the University entered into two interest rate swap agreements, which expire in October 2036 and October 2039, effectively to convert $60,000 and $40,000, respectively, of the variable rate exposure to a fixed rate. Under the terms of this agreement the University pays a fixed rate of 3.777% and 3.91% and receives 67% LIBOR on the notional principal amount. The estimated fair value of this agreement, based on various factors related to the underlying debt facility and interest rates, represents an unrealized gain of $1,309 as of June 30, 2006. This is included in accounts receivable in the Statement of Financial Position. These financial instruments involve counter-party credit exposure. The counter-party for these swap transactions is a major financial institution that meets the University's criteria for financial stability and creditworthiness.

(In thousands)

Residence facilities with a book value of $2,129 are pledged as collateral for certain of the mortgage notes payable.

In June 2003, the University contracted to lease a telephone system. The initial lease term is 36 months with options to renew for two consecutive periods of 24 and 12 months. Future minimum operating lease payments under this agreement are as follows:

		Amount
Fiscal year:		
2007	$	819
2008		819
2009		819
	$	2,457

(8) Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets are gifts and income received with donor stipulations and the realized and unrealized gains on endowment assets. These assets are expendable principally for instruction or financial aid.

The composition of the temporarily restricted net assets as of June 30 is as follows:

		2006	**2005**
Restricted contributions	$	36,079	42,041
Unexpended endowment income		2,401	4,483
Net realized and unrealized gains on endowment		96,166	72,438
Life income and annuity funds		6,399	9,086
Contributions receivable, net		61,169	43,960
Physical plant and other		21,743	12,205
Total temporarily restricted net assets	$	223,957	184,213

(In thousands)

(b) Permanently Restricted Net Assets

The composition of the permanently restricted net assets as of June 30 is as follows:

		2006	2005
Endowment funds	$	369,162	337,451
Student loan funds		4,311	4,459
Life income and annuity funds		7,447	6,634
Contributions receivable, net		31,466	23,996
Funds held in trust by others		10,091	9,800
Total permanently restricted net assets	$	422,477	382,340

(9) Retirement Programs

The University participates in defined contribution pension programs providing retirement benefits for substantially all full-time and regular part-time employees. Under the programs, the University makes monthly contributions, currently limited to 3%-10% of the annual eligible wages of participants, up to defined limits. Voluntary contributions by participants are made subject to IRS defined limits. Retirement program expenses amounted to $6,283 in 2006 and $5,852 in 2005.

In addition, the University has implemented a supplemental executive retirement plan for certain senior management employees. Benefits are based on the employees' service and earnings. The Plan is a nonqualified plan under the Code and currently has no advanced funding.

(10) Related Party Transactions

The University has invested $1,638 and $5,016 as of June 30, 2006 and 2005, respectively, in a limited partnership for which a University Trustee is a general partner. The University is committed to make additional investments of up to $1,863. The University's Investment Committee approved and continues to monitor this investment.

(11) Contingencies

The University is engaged in legal cases that have arisen in the normal course of its operations. The University believes that the outcome of these cases will not have a material adverse effect on the financial position of the University.

(Continued)

(In thousands)

(12) Change in Accounting Principle

In March 2005, the Financial Accounting Standards Board (FASB) issued FIN 47. This interpretation clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an assets retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. SFAS 143 requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized.

The University adopted FIN 47 effective July 1, 2005 and recorded a liability of $6,503 of which $6,362 was recorded as a cumulative effect of a change in accounting principle. Because SFAS 143 requires retrospective application to the inception of the liability, the initial asset retirement obligation was calculated using a discount rate of 6.0%.

The following table summarizes the impact as of July 1, 2005:

Increase in PPE, net	$	141
Increase in liability		6,503
Cumulative effect		6,362

Substantially all of the impact of adopting FIN 47, as described above, relates to estimated costs to remove asbestos that is contained within our facilities. If the University had adopted FIN 47 effective June 30, 2005, it would have decreased unrestricted net assets in 2005 by less than $10. The University expects the additional depreciation and accretion costs to be approximately $260 in 2007.